

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Government Name		County	
Audit Date		Opinion Date		Date Accountant Report Submitted to State:			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☐ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☐ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☐ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☐ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☐ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			
Reports on individual federal financial assistance programs (program audits).			
Single Audit Reports (ASLGU).			

Certified Public Accountant (Firm Name)				
Street Address		City	State	ZIP Code
Accountant Signature <i>Abraham & Alfrey, P.C.</i>			Date <i>John R. K.</i>	

**Elsie Area Fire Association
Elsie, Michigan**

FINANCIAL STATEMENTS

March 31, 2004

Elsie Area Fire Association

Elsie, Michigan

March 31, 2004

BOARD MEMBERS

Mr. Kam Washburn

Chair

Mr. Lonnie McCullough

Co-Chair

Mr. Clyde Gilbert

Secretary/Treasurer

Mr. Robb Maynard

Board Member

Mr. Don Taylor

Board Member

Elsie Area Fire Association

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
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ABRAHAM & GAFFNEY, P.C.
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and
Michigan Association of
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Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Elsie
Area Fire Association
Elsie, Michigan

We have audited the accompanying financial statements of the Elsie Area Fire Association as of and for the year ended March 31, 2004, as listed in the Table of Contents. These financial statements are the responsibility of the Association. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Association has not maintained a complete record of its general fixed assets and, accordingly, a statement of General Fixed Assets, required by accounting principles generally accepted in the United States of America, is not included in the financial statements. The amount that should be recorded in the General Fixed Asset Account Group is not known.

In our opinion, except for the effect on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Elsie Area Fire Association as of March 31, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 6, 2004

Elsie Area Fire Association

BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP

March 31, 2004

	<u>Governmental Fund Type</u>	<u>Account Group</u>	<u>Totals (Memorandum Only)</u>
	<u>Special Revenue</u>	<u>General Long-Term Debt</u>	
ASSETS			
Cash	\$ 2,674	\$ -	\$ 2,674
Accounts receivable	1,500	-	1,500
Amount to be provided for retirement of general long-term debt	<u>-</u>	<u>150,722</u>	<u>150,722</u>
TOTAL ASSETS	<u>\$ 4,174</u>	<u>\$ 150,722</u>	<u>\$ 154,896</u>
LIABILITIES AND FUND DEFICIT			
LIABILITIES			
Accounts payable	\$ 2,191	\$ -	\$ 2,191
Accrued liabilities	1,133	-	1,133
Capital lease payable	<u>-</u>	<u>150,722</u>	<u>150,722</u>
TOTAL LIABILITIES	3,324	150,722	154,046
FUND BALANCE			
Unreserved - undesignated	<u>850</u>	<u>-</u>	<u>850</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 4,174</u>	<u>\$ 150,722</u>	<u>\$ 154,896</u>

See accompanying notes to financial statements.

Elsie Area Fire Association

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - SPECIAL REVENUE FUND

Year Ended March 31, 2004

REVENUES	
Charges for services	\$ 82,939
Interest	68
Other	<u>5,214</u>
TOTAL REVENUES	88,221
EXPENDITURES	
Current	
Salaries	21,998
Fringe benefits	1,469
Fuel	1,365
Dues and fees	490
Telephone	1,539
Equipment	22,217
Insurance	12,786
Repairs and maintenance	3,221
Other	5,216
Debt Service	
Principal	9,782
Interest	<u>2,861</u>
TOTAL EXPENDITURES	<u>82,944</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	5,277
Fund deficit, beginning of year	<u>(4,427)</u>
Fund balance, end of year	<u>\$ 850</u>

See accompanying notes to financial statements.

Elsie Area Fire Association
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE A: DESCRIPTION OF FIRE ASSOCIATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Elsie Area Fire Association was created in 1999 by a joint venture agreement between the Townships of Duplain, Chapin, Fairfield, and the Village of Elsie. Each participating unit appoints one (1) representative and the Fire Association appoints one (1) member at large to serve on the committee of the Association. The Fire Chief oversees the day-to-day operations of the Fire Association.

The Association has no stockholders and all monies received are to be used for certain specified purposes in accordance with the joint venture agreement between the constituent municipalities.

Each entity is responsible to pay annually to the Fire Association a per capita charge among all members except the Village of Elsie, which contributes as its per capita share the lease provisions and expenses together with liability insurance on the operations of the Association and its equipment. Other responsibilities including insurance coverages and procedures for termination of services are explicitly detailed in the joint venture agreement. The Association also bills and collects fees from participating municipalities for providing fire protection services.

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Elsie Area Fire Association. The Elsie Area Fire Association is considered a "joint venture" of the constituent municipalities.

2. Basis of Presentation

The accounts of the Association are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Association resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The fund and account group reported in the financial statements are categorized and described as follows:

GOVERNMENTAL FUND

- a. Special Revenue Fund - This fund is used to account for all financial resources to be used for fire protection services provided to each participating municipality.

ACCOUNT GROUP

- a. General Long-Term Debt Account Group - This account group is used to record the outstanding long-term obligation of the capital lease.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the Balance Sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

Elsie Area Fire Association
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE A: DESCRIPTION OF FIRE ASSOCIATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

5. Fixed Assets and Long-Term Liabilities

The accounting and reporting treatment applied to the fixed assets and long-term liabilities associated with a fund are determined by its measurement focus. All governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balance (net current assets) is considered a measure of "available spendable resources".

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in a General Fixed Assets Account Group, rather than in the governmental funds. The general fixed assets are recorded as expenditures at the time of purchase in the governmental fund types. However, the Board has not included the General Fixed Assets Account Group in this report.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

6. Comparative Data

Comparative Data for the Special Revenue Fund has not been presented in the accompanying financial statements since the inclusion of such data would make the financial statements unduly complex and difficult to read.

7. Budgets and Budgetary Accounting

The Association did not properly adopt a complete budget for the Special Revenue Fund Type as required by accounting principles generally accepted in the United States of America. As a result, a budgetary comparison has not been included in these financial statements.

NOTE B: CASH

Elsie Area Fire Association's deposits consist of checking and savings accounts, which are reported as cash on the Balance Sheet.

In accordance with Michigan Compiled Laws, the Elsie Area Fire Association is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

Elsie Area Fire Association

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

NOTE B: CASH - CONTINUED

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits of the Elsie Area Fire Association are at a federally insured credit union located in the State of Michigan with all accounts maintained in the name of the Elsie Area Fire Association.

As of March 31, 2004, the carrying amount and bank balance for the checking and savings accounts as reported on the Balance Sheet was \$2,674 and \$3,318, respectively. The bank balance as of March 31, 2004, was fully insured by the National Credit Union Administration.

NOTE C: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Association for the year ended March 31, 2004:

	Restated Balance <u>April 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>March 31, 2004</u>
Capital leases	\$ <u>32,040</u>	\$ <u>128,464</u>	\$ <u>9,782</u>	\$ <u>150,722</u>

Significant details regarding outstanding long-term debt are presented below:

Capital Leases

The Association has entered into three (3) lease purchase agreements, which qualify as capital leases for accounting purposes (title transfers to Association) and therefore they have been recorded at the present value of future minimum lease payments as of the date of inception. The following is additional details regarding the leases.

Elsie Area Fire Association
NOTES TO FINANCIAL STATEMENTS
March 31, 2004

NOTE C: LONG-TERM DEBT - CONTINUED

Capital Leases - continued

The Fire Association has entered into three (3) leases for the purchase of firefighting equipment and a tanker. The cost of the equipment and tanker under the lease purchase agreements amounted to \$189,962.

Commitments under the lease agreements provide for minimum annual payments as follows:

<u>Year Ending March 31,</u>	<u>Bunker Gear</u>	<u>Air Packs</u>	<u>Tanker</u>
2005	\$ 4,976	\$ 7,667	\$ 17,627
2006	4,976	7,667	17,627
2007	-	-	17,627
2008	-	-	17,627
2009	-	-	17,627
2010-2013	<u>-</u>	<u>-</u>	<u>70,508</u>
	9,952	15,334	158,643
Less: amount representing interest	<u>(1,394)</u>	<u>(1,634)</u>	<u>(30,179)</u>
	<u>\$ 8,558</u>	<u>\$ 13,700</u>	<u>\$ 128,464</u>

NOTE D: RISK MANAGEMENT

The Association is exposed to various risks of loss including commercial property, general liability, and auto for which the Association carries commercial insurance.

NOTE E: GASB STATEMENT NO. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

For the first time the financial statements will include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Association's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Association's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The general provisions of GASB Statement No. 34 must be implemented by the Elsie Area Fire Association no later than the fiscal year ending March 31, 2005; the retroactive reporting of infrastructures, if any, is optional, but if implemented, it must be implemented no later than the year ending March 31, 2009.

Principals

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REPORT ON INTERNAL CONTROL STRUCTURE

Members of the Elsie
Area Fire Association
Elsie, Michigan

We have audited the financial statements of the Elsie Area Fire Association as of and for the year ended March 31, 2004, and have issued our report thereon, dated July 6, 2004.

In planning and performing our audit of the financial statements of the Elsie Area Fire Association for the year ended March 31, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the Elsie Area Fire Association is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of combined financial statements in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

However, we noted certain items involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the combined financial statements.

FIXED ASSETS

As noted in the financial statements, the Association has not recorded general fixed assets in the financial statements as required by accounting principles generally accepted in the United States of America. This issue was noted and reported in our audit comments last year.

The Association is required to implement GASB Statement No. 34 no later than fiscal year ending March 31, 2005, which will require government-wide financial statements prepared on the full accrual basis of accounting. Under the full accrual basis of accounting, capital assets are depreciated over their estimated useful lives. To the extent possible, the depreciation expense should be allocated to the appropriate function of the government.

We suggest the Association establish a capitalization policy, inventory their capital assets, determine historical cost or estimated historical cost, and estimated useful lives of those capital assets. Such information should then be used to calculate accumulated depreciation for the capital assets through March 31, 2004. This will be used for the beginning balances for the 04/05 year for GASB No. 34 implementation. Compiling this data related to the Association's capital assets will not only facilitate the implementation of GASB Statement No. 34, it will also increase your internal control over capital assets and lessen the risk of misappropriation of assets.

BUDGETS

As noted in the annual financial statements, the Association had not properly adopted a complete budget for the year ended March 31, 2004, for the Special Revenue Fund. It was noted that expenditures were budgeted for, but budgeted revenues were not included. The Michigan Public Act 621 of 1978, as amended, provides that the Association adopts formal budgets for the applicable General, Special Revenue, and Debt Service Funds, and shall not incur expenditures in excess of the amounts appropriated. This adoption should include a formal budget resolution detailing the budgeted expenditures and the budgeted revenues and fund balance that will be utilized to finance budgeted expenditures. This issue was noted and reported in our audit comments last year.

We recommend the Association formally adopt and monitor a complete budget, including both revenues and expenditures, for the Special Revenue Fund.

INVESTMENT POLICY

During the course of our audit, it was noted the Association had not adopted an investment policy as required by Michigan Compiled Law. This issue was noted and reported in our audit comments last year.

We recommend the Association prepare a formal investment policy, which complies with the compiled law, and adopt it through Board action as soon as possible.

SEGREGATION OF DUTIES

During our consideration and assessment of fraud risk, we noted that the Association may not have sufficient segregation of duties in its accounting structure. The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, billing, etc.).

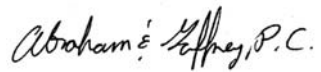
While this is a common occurrence in small organizations due to the limited number of employees, the Association Board should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated.

We suggest that the Association review various areas of operation and consider additional segregation of duties. If duties cannot be adequately segregated due to the limited number of employees, we suggest the Association Board provide a greater review and supervision of employee functions and procedures.

A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions referred to above are believed to be material weaknesses.

This report is intended solely for the information and use of the Association and is not intended to be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Abraham & Gaffney, P.C.".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

July 6, 2004